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RUEHGL/AMCONSUL GUAYAQUIL 3863

C O N F I D E N T I A L QUITO 001003

SIPDIS

E.O. 12958: DECL: 10/24/2018
TAGS: [EPET](#) [EMIN](#) [ECON](#) [PGOV](#) [EC](#)
SUBJECT: IN SURPRISE MOVE, CORREA REPLACES MINISTER OF
MINES AND PETROLEUM

REF: A. 07 QUITO 2277

[1](#)B. QUITO 351

[1](#)C. QUITO 764

Classified By: DCM Andrew Chritton, Reasons 1.4 (b&d)

[1](#)1. (U) Summary: At a contract-signing ceremony with US-Canadian oil firm Ivanhoe on October 8, Ecuador's President Rafael Correa announced that Minister of Mines and Petroleum Galo Chiriboga had resigned "for personal reasons." Press reports later suggested that Chiriboga had been forced out. President Correa announced the appointment of Derlis Palacios, formerly Coordinating Minister for Strategic Sectors, as Chiriboga's replacement. End Summary.

[1](#)2. (SBU) Chiriboga had served as Minister of Mines and Petroleum since July 2007. His resignation was a surprise, and press reports suggested he had been forced out. Chiriboga was seen as a mediator within the Correa administration, working with the oil companies as the GOE sought to renegotiate their contracts. President Correa had stated that finishing the renegotiation of oil contracts was a top priority, and that he had grown frustrated with the low production levels of private oil companies in Ecuador. Press reports indicated that he was frustrated with Chiriboga's inability to convince oil companies to accept new contracts. A press release said that Correa sought officials with "new energy," and that Chiriboga had shown "signs of exhaustion."

[1](#)3. (C) Chiriboga had been negotiating new contracts with the foreign oil companies and was reportedly making progress when, on two separate occasions, Correa abruptly changed the nature of negotiations. In October 2007 he increased the government's share of windfall oil income from 50% to 99% (ref A), and in April he announced the government was suspending contract negotiations pending the development of new contract model (ref B). It appears that Chiriboga was blind-sided by both developments. Then in August, Correa announced that he was renewing contract negotiations under his own leadership (ref C). However, after meeting with senior officials from the petroleum companies, Correa delegated further discussions to Chiriboga.

Derlis Palacios

[1](#)4. (SBU) Minister Palacios has an extensive background in civil engineering (with a degree from the University of Cuenca). His early career included work in the Technical Department of the Ecuadorian Hydraulic Resources Institute, in Azuay province. In the 1990s, he served as Director and also as Treasurer of the Civil Engineering School of Azuay, and Director of the Construction Chamber of Cuenca. He later became President of the Civil Engineering School of Azuay, where he worked from 2001-2005. From April 2005-July 2006 he served as Minister for Public Works and Communications under

President Palacio. Under the current administration, he had been serving as Coordinating Minister for Strategic Sectors. The limited amount of feedback that post has heard from companies who have dealt with Palacios suggests that he takes a pragmatic view towards problem-solving. In his first speech as Minister of Mines and Petroleum, he too demanded that foreign oil companies increase their oil production and make the necessary investments to boost output.

Galo Borja

15. (SBU) Replacing Palacios as Coordinating Minister for Strategic Sectors was Galo Borja Perez, a former member of the Constituent Assembly from Machala, El Oro province. His role will be to coordinate actions by all ministries involved in "strategic sectors" (including petroleum, mining, electricity, telecommunications, and water). Borja is not known to the Embassy, but appears to have been an active member of the Constituent Assembly, where he managed his own blog. Borja has an architecture degree from a Guayaquil university and an MBA from the INCAE Business School in Costa Rica. He served as Director of the Pais movement for El Oro province. He was also President of the Architecture School of El Oro.

Comment

16. (C) Correa has yet again fiddled with his cabinet. In Chiriboga's case, it is surprising that he lasted as long as he did, since Correa's numerous abrupt changes to the

negotiations with the petroleum companies clearly suggested that Chiriboga had limited influence over Correa's decisions and presumably had lost credibility with oil companies as well. We believe that Chiriboga was negotiating in good faith with the oil companies and wanted to reach agreement. It appears that Correa also wanted to reach agreement on new oil contracts, largely so that the companies would restore investment and increase production. However, Chiriboga's quiet, consensual negotiating style clearly was a poor match for Correa's often tempestuous drive. It remains to be seen whether Derlis Palacios and Correa together will develop an approach that will allow the foreign oil companies to renew investment in Ecuador.

HODGES